Clark Capital MANAGEMENT GROUP

Portfolio Commentary

Navigator® Global Tactical

Portfolio Manager

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Senior Portfolio Manager

Top Contributors as of March 31, 2024

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 ETF	42.19	4.40
iShares Core MSCI Total International Stock ETF	26.21	1.17
iShares Core S&P Small Cap ETF	18.28	0.38

Top Detractors as of March 31, 2024

Company Name	Avg. Weight (%)	Contribution to Return (%)
Vanguard FTSE All-World ex-US Small-Cap ETF	11.52	0.15

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period and the last 12 months, contact: PortfolioAnalytics@ccmg.com.

Strong Economy and Earnings Overcome Rising Rates

Market Review

November and December 2023 witnessed a huge rally driven by a flurry of expectations of 2024 Fed interest rate cuts. By December, six cuts were priced in for 2024 by the markets, but a strong economy and job market, combined with sticky inflation soon proved those expectations short-lived. While interest rates moved steadily higher during the quarter, markets were encouraged by strong earnings, and the S&P 500 produced an over 10% gain. The markets' path was so smooth and upward that the S&P 500 never broke below its 50-day moving average and was only below its 21-day moving average for one day.

While the large-cap S&P 500 produced substantial gains, returns were particularly concentrated as A.I. stocks soared into the stratosphere. Nvidia, the maker of most of the crucial A.I. chips, was up 82% on the quarter, becoming the third-largest company in the S&P 500. Super Micro Computer, a maker of A.I. computer stacks, was up 255%, and by March, it entered the S&P 500. The gains were so concentrated that even the tech-heavy NASDAQ 100 underperformed, producing only an 8.6% gain, while small-caps (IJR) were hampered by rising interest rates and produced only a 2.4% gain.

While stocks produced substantial, if narrow, gains, fixed income produced modest losses, with the Aggregate Bond Index down 0.7%. Corporate credit fared much better. The High Yield Corporate Bond Index produced a gain of 1.5%, as high yield repeated its historical pattern of outperforming during periods of rising rates.

Just over a week into April, we have seen interest rates spike higher as inflation surprised to the upside. So far, stocks have responded quite well, and we believe an important question facing investors in the second quarter will be at what level will higher interest rates bite and cause a correction? So far, risk markets, and credit markets in particular, have proven quite resilient.

First Quarter Portfolio Highlights

- Last fall, our models turned positive after interest rates turned downwards and on November 6th, the Global Tactical portfolios moved to a risk-on stance owning equities where the portfolio has stayed through the first quarter. Since late November, equities have enjoyed substantial gains; since taking a risk-on stance in early November, the S&P 500 (SPLG) is up 21.0%, while small-caps (IJR) are similarly higher at 19.2%. International equities have produced more modest gains, with broad international equity (IXUS) up 14.1% and international small-caps up 12.6%. In contrast, broad U.S. Treasuries (GOVT) are up 4.5%, while cash equivalents (SHV) are up 2.1%.
- When positive on equities, the portfolio's base allocation contains a 70-30 mix between U.S. large-cap and small-cap stocks, and a 70-30 mix between U.S. and international equities. Last year we increased the weight to international equities, moving to a 60% U.S. and 40% international mix. This change was driven by a large valuation gap between U.S. and international equities, and our belief that the Fed's eventual pause will create downward pressure on the U.S. dollar, boosting international equities.
- While our models continue to solidly favor risk-on assets, we should note that the rising rate environment so far in 2024 has moved cash to become our favored defensive vehicle. As a result, if we do see market weakness develop during the second and third quarters, a move to cash is most likely.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Positioning and Outlook

The quantitative models that drive the Global Tactical portfolio allocations examine trends in credit markets to determine whether risk-taking is being rewarded or punished. We believe credit trends continued to be favorable in the first quarter as high yield spreads have declined to below 3.0%, a level which they have been below only 7% of the time. This overvaluation is not an imminent cause for concern, as we know from past experience that spreads can hold below 3% for extended periods. It is when spreads reverse from these low levels that risk management becomes important. As always, our models are watching for any reversal from stretched valuations, but we have seen very little evidence of weakness in corporate balance sheets or investors' willingness to lend.

Thus, from our model-based perspective, the rally since November 2023 looks to be legitimate, with fundamentals and investor sentiment backing it. Market gains could well continue further, with possible wider participation from mid and small-caps as well as value stocks as the economy improves. While Technology and growth stocks have stalled a bit over the last month, our analysis indicates that while they are richly valued, they are not in a bubble that would represent outsized risks.

Over the past five years, the dominance of large-cap and Technology stocks has been strong. The S&P 500 (itself a large-cap index) is up 15% per year over the last five years ending March 31st, and the mega-cap Tech-heavy NASDAQ 100 is up 20.6%. Mid-cap stocks, in contrast, are up only 11.6% per year over that time, while small-cap stocks have gained only 9.1%, which is less than half of the NASDAQ 100.

The gains have left the NASDAQ 100 forward P/E at 27.1, which while certainly at the high end of its historical range is not in bubble territory. Meanwhile, small-caps stand at a very reasonable forward P/E of 14.6, which is not all that far from major lows seen in 2011, 2020, and 2023. While valuation measures by themselves are very poor timing tools, they are better measures of risk, and with small-caps reasonably valued, this argues for reduced risk of a major decline in markets.

We continue to believe that small-cap stocks and value stocks continue to offer potential and are compelling on a relative basis. Overall, our credit-based models and the macro indications that we follow point to a strong backdrop for equities and risk-based assets over fixed income and cash equivalents. While a slowdown and stalling from an overbought condition is overdue and inevitable, we would view that as a buying opportunity.

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Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

High Yield Corporate Bond Index is designed to track the performance of U.S. dollar-denominated, high-yield corporate bonds issued by companies whose country of risk use official G-10 currencies, excluding those countries that are members of the United Nations Eastern European Group (EEG).

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The Nasdaq-100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange.

A small-cap ETF is a type of exchange-traded fund that invests in small companies whose value is less than $2 billion

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